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SUBJECT: NEW MAQUILA DECREE -- INCREASING MEXICAN
COMPETITIVENESS

REF: A. MEXICO 6217

¶B. MEXICO 6067

Summary

¶1. (U) The revamping of the Maquila program is the latest step in the GOM's plans to encourage investment and increase Mexico's competitiveness in the global economy. The new decree joins the Maquila and PITEX programs, allows for participation of the service sector, lowers certain participation requirements, facilitates the administrative processes involved, and better controls compliance while encouraging transparency. The decree will go into effect on November 13 but, despite a long approval process, certain elements of the decree will not be agreed upon until early next year, particularly the requirements for the temporary import of inputs and activities covered as service exports.
End Summary.

Maquila and PITEX - One in the Same

¶2. (U) On November 1, the GOM published the new IMMEX Decree (named for its Spanish language acronym - Decreto para el Formento de la Industria Manufacturera, Maquiladora y de Servicios de Importaci"n), to be effective November 13. It will combine the current Maquila and PITEX programs into one regulatory scheme, and streamline administrative processes associated with the program. Approximately 6,500 companies are included under the current Maquila and PITEX programs. They represent 2.4 million employees (54 percent of the total workforce employed in the manufacturing sector) and account for more than 85 percent of the country's exports.

¶3. (U) Originally, the PITEX program was created to allow Mexican companies that did not qualify for the Maquila program to gain some maquila-like benefits. Instead of linking duty-free import authorization to specific companies as under the Maquila program, PITEX program authorizations were linked to specific imports. However, with changes implemented by the GOM in recent years to open its markets, the programs have become quite similar. As a result of NAFTA, PITEX and Maquilas converged with respect to fiscal treatment, tariffs, and administrative procedures. Currently, the only small difference between the programs is that maquilas receive income tax benefits. With the new decree, income tax benefits will still be provided to maquilas, but now the value-added tax treatment (VAT refund upon export of merchandise) will be the same for both programs.

Old Maquila Decree Behind the Times

¶14. (U) Another major change of the decree is the addition of export services. Although there were reforms to the Maquila Decree in 2003, it was still considered "obsolete" because of its failure to include outsourcing and some services. Both are included in the current decree to enable Mexico to develop a fourth-generation maquila sector able to compete with China and India in regards to value added products and services. The new decree promotes and permits within the Maquila and PITEX programs: industrial transformation/processes (manufacturing, repair of merchandise that will be exported); export services; and outsourcing. In a meeting with EconOff, Adolfo Cima de Villa, the new Head of Advisors in the Economic Ministry's Undersecretariat for Industry and Commerce, explained Mexico's prospects in regards to business process outsourcing (BPO's). He said that Mexico's proximity to the U.S. is an added benefit when it comes to outsourcing because "while the U.S. is awake India is asleep and vice versa whereas Mexico will be able to do business on the same schedule as the U.S."

¶15. (U) The new decree also allows for submanufactures and the use of third parties ("terciarizacion") in the maquila process. When a certifying company does not have adequate production facilities, a third company will now be able to perform the production under the same maquila program. Another concept, "shelter" allows a foreign company to provide maquilas with technology and imports, without having to operate under the same maquila program.

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Changes a Boon for Small and Medium Size Businesses

¶16. (U) The decree additionally reduces the required amount of exports to qualify for duty free imports under the PITEX program from 30 to 10 percent. This means more businesses will be able to participate in the program. The lowered requirement is one of the recently enacted changes that have been promoted as helping small and medium sized enterprises (SMEs) become more competitive (ref A reported on recent tariff cuts for inputs). In addition, SMEs are the most likely to benefit from the entry of submanufactures and "terciarizacion" in the maquila process, further allowing them the opportunity to participate in the global market.

Administrative Requirements Simplified

¶17. (U) By merging the Maquila and PITEX programs, the number of procedures will be reduced from the current 29 to 16. The number of days to grant an authorization to operate under Maquila or PITEX will be reduced to between 10 and 15 working days. One of the main cumbersome procedures eliminated from the previous decree was the requirement to register in the Importers Database for Specific Sectors. Additionally, administrative procedures will be expedited thanks to installation of electronic controls and mechanisms. Although not a change, the new decree also continues the concept of a "holding" maquila, which allows a company to consolidate foreign trade operations of two or more subsidiaries in only one controlling company, allowing greater administrative efficiency.

Discourage Contraband and Promote Transparency

¶18. (U) To foster competitiveness, the new decree has tighter

controls to prevent contraband, especially in the textile sector. Maquilas will be required to present an import authorization, a valid RFC (federal taxpayer number), address, and an electronic signature. To grant a Maquila or PITEX program, authorities will inspect the facilities registered in the system. In addition, the authorities will cancel programs if a company has not exported during the past 12 months or in the case of an unverifiable address. This is an attempt to counter the previous practice of smugglers using fake companies' identities and addresses to illegally import products.

¶ 9. (U) The new decree also includes an electronic inventory control requirement. This is intended to give more transparency to the movement of inputs and finished products. Maquilas and PITEXs will also have to hand in an annual report on sales and exports to the Economic Ministry (SE).

Some Elements Still Unclear

¶ 10. (U) Article 5 of the decree lists three details that are yet to be agreed upon by the Secretariats of Economy and Finance. Agreement on these issues is to be achieved no later than February 26, 2007. These include requirements to be compiled for temporary import of certain inputs, the maximum import number for certain inputs used in the textile sector, and the list of activities to be performed as services in the Maquila program.

Comment

¶ 11. (U) Economia Under Secretary Rocio Ruiz told us earlier that the changes in the Maquila Decree, finally enacted after years of discussion, reflect the GOM's strong interest in promoting Mexican competitiveness. The Fox administration, as well as President-elect Calderon, have publicly noted that in order to increase Mexico's competitiveness and attract more investment, the GOM must reduce transaction costs for companies in Mexico. In addition to the new Maquila Decree, Calderon transition figures and others have called for lower energy and labor costs to boost economic growth and generation of jobs. The new Maquila Decree is a step forward in fostering exports and job creation, but its overall impact remains to be seen. The GOM understands, however, that it is important to look for more value added in Mexican production and to include outsourcing services to keep pace with India and China. As reported in ref B, it seems that the Calderon

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administration will continue current efforts of simplifying and reducing at least some procedures and regulations. As always, the actual pace of implementation will be key to success and tangible economic results.

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